



To generators, distribution
network operators, suppliers and
other interested parties

*Promoting choice and value for
all gas and electricity customers*

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Further decision on time-limited exemption from use of system charges for pre-2005 generators

On 10 February 2012 we published a letter outlining our decision to offer an exemption from use of system (UoS) charges for distributed generators (DGs) who connected to distribution network operators' (DNOs) networks before April 2005. This decision followed a consultation process in late 2011 and contained various details on its implementation, including how the commencement date of exemptions would be determined.

The letter confirmed our earlier proposal that exemptions would commence from the date of a DG's connection, and stated that 31 March 2005 would be the latest permissible date of connection for the purposes of determining any exemption, regardless of whether the date of connection or energisation date was being relied upon. This final date was intended to maintain consistency with the change in charging methodologies which we expected to be reflected in connection agreements.

In response to this aspect of our decision, several DNOs raised a further issue with Ofgem. This was that a small cohort of DGs had connected to their networks after 31 March 2005, but under agreements which still reflected the charging arrangements in place prior to this date. For these DGs, the change to the charging methodology occurred in the time from when network costs and associated commercial arrangements were established between the DG and the DNO to when planning approvals were obtained or other pre-conditions necessary for the connection were met.

We have examined further information provided by the DNOs on the number and nature of these sites and consider that they should be treated on a consistent basis with other eligible pre-2005 DGs; that is, we recognise that these DGs have already paid operations and maintenance costs which may be inappropriately recovered twice through the introduction of UoS charges. For this reason, we retract our prior specification of 31 March 2005 as the latest possible date of connection for the purposes of determining the commencement date of exemptions. For these affected sites, exemptions would therefore commence from the date of connection (i.e. after 31 March 2005) and last 25 years. Other provisions as set out in our previous decision letter still apply, including use of the date of energisation where the connection date is not known and the ability of eligible DGs to opt into UoS charging arrangements at any time prior to the expiry of their exemption period.

Following our decision letter we also received questions from several stakeholders on how the exemption would apply for pre-2005 DGs that will be affected by the change in the boundary definition of the CDCM and the EDCM on 1 April 2013. Some DGs currently subject to the CDCM will be covered by the EDCM from this date, moving from a situation of receiving credits under the CDCM to paying positive UoS charges under the EDCM. We

can confirm that such DGs would be regarded as EDCM customers for the purposes of our exemption decision, that is, they would be exempt from paying UoS charges by default and may opt into UoS arrangements at any time. This differs from the situation for eligible DGs under the CDCM which will continue to be subject to UoS arrangements by default.

If you have any queries related to this letter please contact Lawrence Irlam on 020 7901 3064 or at lawrence.irlam@ofgem.gov.uk.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Andy Burgess".

Andrew Burgess
Associate Partner – Transmission and Distribution Policy